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September 15, 2008

AGENDA ITEM 5a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Selection of Special Projects Spring-fed Pool Consultants
- II. PROGRAM:** CalPERS Real Estate Program
- III. RECOMMENDATION:** Investment Committee may interview in October 2008, or approve the staff-recommended Consultants to be added to the existing Real Estate Special Projects Spring-fed Pool.
- IV. ANALYSIS:**

BACKGROUND

The CalPERS Real Estate Special Projects Spring-fed Pool (SFP) provides the Real Estate Program with support in various areas to assist CalPERS in meeting its fiduciary needs. Some of the areas of expertise most commonly used by staff are associated with the following activities: certified public accounting, portfolio attribution analysis, varying underwriting analysis, selected sector due diligence, market and/or property specific research, statistical model developing and debt analysis. The current SFP consists of 14 real estate consultants. The expiration date of the SFP is June 30, 2010.

In order to meet the changing needs of the Real Estate Program, staff may need to bring additional firms into the SFP. Since the adoption of the Strategic Plan in September 2007, the Real Estate staff has determined that certain consultant specialties are required to implement the Plan's recommendations. As such, a focused solicitation was undertaken to obtain proposals from interested consultants

to “refresh” the SFP. On June 25, 2008, a Request for Proposals (RFP) was released to refresh the pool of consultants. The final filing date for this solicitation was August 1, 2008.

The steps of the competitive solicitation process approved by the Investment Committee included the following:

- 1) Staff will release a RFP with a stipulated deadline for filing proposals.
- 2) An Evaluation Committee, comprised of Real Estate Program staff, will conduct technical and fee evaluations of the proposals submitted, score the proposals and create a ranked list of successful proposers. Real Estate staff will evaluate and score proposals consistent with the scoring mechanism used in the original RFP;
- 3) The Investment Committee may interview the highest ranking proposers, if needed, and select the additional consultants to be awarded contracts in the fourth quarter of 2008.

Accordingly, an Evaluation Committee consisting of six (6) real estate staff members reviewed and scored four (4) proposals. Three consultant candidates were successful in achieving consensus scoring for consideration and admittance into the pool. Staff recommends the addition of the following consultants to the SFP:

- David L. Bonuccelli & Associates, Inc.
- Pension Consulting Alliance, Inc.
- Stockbridge Capital Group, LLC

A profile for each of the successful proposers has been prepared by staff and is included in Attachment 1.

All the recommended consultants have specific real estate expertise in some niche property type (such as single family homes, senior housing, etc.) or they have a wide array of real estate expertise, as well as experience working with other large institutional organizations. Therefore, staff feels that adding the above consulting companies to the existing SFP would add value to the Real Estate Program. Other benefits of having a wider pool of consultants are having a broader range of expertise, and limiting potential conflict of interest situations. The approval of this recommended refresh request will allow CalPERS staff to have continued access to a number of highly qualified consultants and to receive competitive proposals from these firms for services related to real estate pension consulting.

IF THE INVESTMENT COMMITTEE ELECTS TO INTERVIEW

The RFP states that the Investment Committee, at their sole discretion, may or may not choose to interview staff-recommended Spring-fed Pool Consultants. If the Investment Committee chooses to interview the staff-recommended Refresh Spring-fed Pool Consultants, all recommended firms will be notified to appear at the October 20, 2008, Investment Committee meeting for an interview.

RECOMMENDATION

If the Investment Committee elects to follow the staff selection of the refresh SFP consultants without interviews, staff recommends that the Investment Committee approve the recommended consultant firms, which would be subject to satisfactory contract negotiations with awards being finalized within the fourth quarter of 2008. Consultants will be available for potential engagement through the balance of the SFP term.

V. STRATEGIC PLAN:

Goal VIII, Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first to pay benefits and second, to minimize and stabilize contributions.

VI. RESULTS/COSTS:

The budget allocation for the SFP is \$1,400,000. The addition of these consultants into the SFP does not increase the budget for these services.

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